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Wavering on Home Capital high-interest GICs? Buffett's got your back

By Rob Carrick
Globe and Mail Update

With Mr. Buffett helping to financially support Home Capital, the company may not need to offer premium rates for long

If Warren Buffett likes Home Capital enough to invest in its shares, then there's less reason to hold back on the company's GICs.

That 3.25 per cent, five-year guaranteed investment certificate that Home Capital's selling under its Oaken Financial brand? Get it while you can. With Mr. Buffett's Berkshire Hathaway helping to financially support Home Capital, the company may not need to offer premium rates like this for long.

I argued against buying Home Capital's GICs in a May 25 column¹ after seeing how freaked out investors were about the company's struggles following a run-in with regulators that has since been settled. Some people spoke of cashing in Home Capital GICs, even though combined principal and interest are protected by Canada Deposit Insurance Corp. to a maximum of \$100,000 per eligible deposit.

Getting financial support from Mr. Buffett's holding company is a big win for Home Capital. The deal, which has yet to be finalized, seems calculated to soothe investor concerns about buying a supposed safe investment product from a troubled company. There's no question that with Mr. Buffett on board, people buying GICs from Home Trust, Home Bank or Oaken Financial now have an additional reason for confidence beyond CDIC's trustworthy backing.

That reason is Mr. Buffett's acumen. The man is a legendary investor who has made plenty of scandal-free wealth over the years for Berkshire Hathaway shareholders. Mr. Buffett is so divorced from the usual investment industry spin and salesmanship that he encourages people to buy low-cost index funds instead of picking their own stocks like he does.

Mr. Buffett has made mistakes, as anyone who manages money does from time to time, but he's widely seen as one of the investing world's best judges of companies offering value. If he's willing to buy shares of Home Capital and provide a line of credit to the company, that's a significant endorsement.

The Home Capital shares that Berkshire Hathaway is buying were priced at a steep discount to the trading price. This demonstrates how Mr. Buffett has found an angle on profiting from a Home Capital rebound that isn't available to everyone. You could buy some Home Capital shares yourself, but they jumped 12.5 per cent in the first 30 minutes of trading on Thursday on news of the Berkshire deal and were already up about 62 per cent in the past month.

Negative news about Home Capital in the future would send those shares right back down again. So consider those GICs from Oaken, Home Trust and Home Bank. The latter two outfits deal through deposit brokers or investment dealers and offer slightly lower rates than Oaken, which deals directly with investors. In the Home Capital organizational chart, Oaken GICs are protected through the CDIC membership of Home Bank or Home Trust. Oaken itself is not a CDIC member.

Oaken offered 2.75 per cent for a one-year GIC as of early Thursday, Home Bank offered 2.55 per cent and Home Trust 2.5 per cent. Compared to Oaken's 3.25 per cent over five years, Home Bank offered 3 per cent and Home Trust 2.95 per cent. Posted rates from the big banks were a bit less than 1 per cent for one year, and no more than 1.6 per cent for five years. GICs are basically pointless if this is all you're getting.

When it introduced its current rates a couple of weeks ago, Home Capital was desperate to attract money from investors to sustain its business of lending out money to so-called alternative mortgage clients – entrepreneurs and immigrants, for example. These are premium rates that beat the competition cleanly, while also addressing the main reason for being wary of GICs today – returns lag or barely keep up with inflation.

Oaken's five-year GIC rate is a little more than double the most-recently reported 1.6-per-cent inflation rate. That said, the sweet spot in Oaken's GIC offerings just might be the three-year term at 3.05 per cent. You still hit that elusive 3-per-cent threshold, but you only have to lock up your money for three years.

The Berkshire deal de-stresses the experience of investing in Home Capital GICs a lot. But even with Mr. Buffett on board and CDIC protection in place, there could still be a certain level of drama associated with the company. Continue to avoid Home Capital if you're investing in GICs to escape the financial headlines.

Editor's note: The fifth to last paragraph has been changed to reflect that Home Bank is a CDIC member.

References

1. <https://www.theglobeandmail.com/globe-investor/personal-finance/household-finances/the-case-for-not-biting-on-home-capitals-31-gic/article35114128>

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